

**REGULAR STATE BANKING BOARD MEETING
HELD BY CONFERENCE CALL
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

January 10, 2008

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:04 a.m., Thursday, January 10, 2008, by conference call.

MEMBERS PRESENT: Timothy J. Karsky, Chairman (*Office*)
Ron Braseth, Member (*Mayville*)
Bill Daniel, Member (*Bismarck*)
Lorren Henke, Member (*Wishek*)
Launa Moldenhauer, Member (*Bismarck*)
Roger Monson, Member (*Finley*)
Anita Quale, Member (*Watford City*)

MEMBERS ABSENT: None

ALSO PRESENT: Robert J. Entringer, Secretary (*Office*)
Douglas D. Grenz, Chief Examiner – Banks (*Office*)
Aaron Webb, Assistant Attorney General (*Office*)
Dana Ereth, Eide Bailly (*Bismarck*)
Josh Wiens, Eide Bailly (*Bismarck*)
Alan Lerberg, Peoples Bank and Trust (*New Town*)
Gary Petersen, Lakeside State Bank (*New Town*)

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on November 8, 2007.

It was moved by Member Braseth, seconded by Member Monson, and unanimously carried, to approve the minutes as presented.

ARTICLES OF AMENDMENT FOR PERPETUAL EXISTENCE

Assistant Commissioner Entringer explained the Department is attempting to get all state banks to amend their Articles of Incorporation for perpetual existence and a Memorandum and appropriate form were sent out at yearend to all those banks that have not yet amended their Articles of Incorporation.

Assistant Commissioner Entringer indicated the banks which have completed the Articles are as follows: Dakota Western Bank, Bowman; United Valley Bank, Cavalier; Drayton State Bank, Drayton; First State Bank of Golva, Golva; Bank of Hamilton, Hamilton; Commercial Bank of Mott, Mott; The First State Bank of Munich, Munich; Bank of Turtle Lake, Turtle Lake; and Peoples State Bank of Velva, Velva.

It was moved by Member Henke, seconded by Member Quale, and unanimously carried to approve the Amendment to the Articles of Incorporation for the 9 banks.

CHANGE OF CONTROL APPLICATION FROM LAKESIDE BANK HOLDING COMPANY, NEW TOWN, TO ACQUIRE AND MERGE PEOPLES BANKSHARES, INC., PARSHALL

Assistant Commissioner Entringer indicated the application was received on December 19, 2007, and was deemed complete on January 3, 2008. Assistant Commissioner Entringer explained that Peoples Bankshares, Inc., owns 100% of the common stock of Peoples Bank and Trust, Parshall.

Assistant Commissioner Entringer indicated notice of the change of control was published according to the North Dakota Administrative Code on December 19 and 26, 2007, although a single publication was only required, with a 10 day comment period. The comment period ended on December 31, 2007, and no comments were received and there were no requests for copies of the application.

Assistant Commissioner Entringer reviewed the criteria for approval under Section 6-08-08.1(4) of the North Dakota Century Code. Assistant Commissioner Entringer noted his Memorandum reviewed the proposal which includes the terms of acquisition, as well as the purchase price; the principal shareholders, directors, and senior executive officers of the resultant merged bank; and funding for the proposed transaction.

Assistant Commissioner Entringer noted the projections included in the application for the applicant and subsidiary banks indicate that the resultant merged bank is expected to remain well capitalized throughout the projection period and there are no significant changes anticipated in programs, products, or activities currently offered.

Assistant Commissioner Entringer stated it is the recommendation of the Department to approve the change of control application of Lakeside Bank Holding Company, New Town, to acquire and merge Peoples Bankshares, Inc., Parshall, and thereby indirectly acquire Peoples Bank and Trust, Parshall.

It was moved by Member Moldenhauer and seconded by Member Braseth to approve the application for change of control by Lakeside Bank Holding Company, New Town, to acquire Peoples Bankshares, Inc., Parshall, and thereby indirectly acquire Peoples Bank and Trust, Parshall. The motion was unanimously carried.

LAKESIDE STATE BANK, NEW TOWN – APPLICATION TO MERGE WITH PEOPLES BANK AND TRUST, PARSHALL

Assistant Commissioner Entringer indicated the merger application was received on December 12, 2007, and was published in *The Mountrail County Promoter*, Stanley, on December 19 and 26, 2007. Assistant Commissioner Entringer indicated although the notice was intended to be a joint publication under Section 13-02-13-03.1 of the North Dakota Administrative Code because of the delayed ending of the comment period, the publication guidelines have to be followed under Section 13-02-13-03, North Dakota Administrative Code, and direct notice was also sent to three banks in the trade area. Assistant Commissioner Entringer indicated the comment period ended January 3, 2008, and no comments or requests for copies of the application were received.

Assistant Commissioner Entringer indicated the merger application requirements are found in Chapter 13-02-13 of the North Dakota Administrative Code, and the application did include the Plan of Merger, as well as copies of Waivers of Notice of the Shareholder Meeting, copies of proposed minutes, the pro forma balance sheet of the resultant bank is included in Exhibit 8, and the changes in the executive officers of the bank, as well as proposed changes to the bank's business plan, hours of operation, fees, terms for deposit and loan accounts, and Board of Directors.

Assistant Commissioner Entringer indicated that Section 13-02-13-04 of the North Dakota Administrative Code sets forth the criteria the Board must consider in approving a merger application:

- (1) Whether proper notification has been given to all shareholders.

Waivers of notice were received for both the applicant and target bank on January 3 and 9, 2008.

- (2) Whether at least 2/3 of the shareholders have ratified the Plan of Reorganization or Merger.

The merger was approved by Lakeside State Bank, New Town, on December 14, 2007, and on November 6, 2007, by Peoples Bank and Trust, Parshall.

- (3) Whether the resultant bank has adequate capital.

The confidential Exhibit 8 details the pro forma balance sheets and projected regulatory capital schedules showing that the resultant bank is expected to remain well-capitalized throughout the projection period.

- (4) Whether the needs of the community to be served will still be met.

The applicant indicates basic banking services will not be diminished in any respect and the bank will continue to provide full banking services similar to those services currently offered.

- (5) The adequacy and competence of management.

Exhibit 6 of the application lists the officers and directors of the resultant bank.

Assistant Commissioner Entringer noted that both banks have recently been examined by the State and FDIC, respectively.

Chairman Karsky asked Mr. Ereth to review the application with the Board.

Mr. Ereth indicated the application is fairly complicated; however, the end result is that Peoples Bank and Trust, Parshall, will be operated status quo and will in fact be operated as Lakeside State Bank dba Peoples Bank and Trust in Parshall. Mr. Ereth indicated all three banks will continue to be more than well-capitalized after the merger, and he includes the Parshall location as an independent bank since it will be operated as a dba and when looking at the consolidated capital ratios at the holding company level there is limited debt involved with this transaction. Mr. Ereth indicated the holding company remains well capitalized also.

Mr. Ereth referred to the financial projections which note there is limited debt associated with this transaction, noting that the 10 year projections are based on 5 year historical data, and receipt of the most recent information shows that using the historical data probably understates what is the actual results. Mr. Ereth, in referring to background on this application, indicated that Eide Bailly started in 2005 helping each bank with strategic planning which was not necessarily directed at each other and subsequently they did an analysis for Lakeside Bank Holding Company in 2006 and in May 2006 the two parties came together and an offer was made. Mr. Ereth continued that subsequently in 2007 the draft Stock Purchase Agreement was put together and ultimately signed in September 2007, and immediately thereafter Lakeside State Bank went onsite and conducted due diligence, adding there were no asset quality concerns.

Mr. Ereth indicated the Merger Agreement and Plan of Reorganization were drafted for all four entities in October 2007, and work on the merger application was begun and ultimately submitted in December 2007. Once the merger application was submitted to the State it was called to their attention that a change of control application would be required. Mr. Ereth indicated they did qualify for a waiver of this application from the Federal Reserve Bank at the holding company level. After the change of control application was submitted to the State, the notices were published for one month straight in the newspapers in the event that

the Federal Reserve Bank would not grant its waiver on the change of control application.

Assistant Commissioner Entringer noted there was 100% shareholder approval from the buyers and sellers.

Mr. Ereth continued they had updated the pro formas based on 12-31-07 financial data, which when compared with the 9-30-07 data in the application, both banks were larger. Mr. Ereth indicated because of the fixed price in this transaction that growth changes the dividends needed to complete the transaction, which is the third item in this approval process, and the amount of the dividends will not actually be known until they consummate the transaction on January 31, 2008. However, Mr. Ereth indicated the requirement of the Purchase Agreement is that Peoples Bank and Trust, Parshall, must draw its capital down to an 8% level prior to the merger and remain well-capitalized on the total risk-based capital ratio. Mr. Ereth pointed out since this is a fixed price, the dollars involved are known, but not how much each bank will be contributing to the overall purchase.

Mr. Ereth suggested a change to the Proposed Order, that the total assets as of the date of consummation rather than adjusted total assets, because the regulatory definition of adjusted total assets is not what is intended in this transaction.

Chairman Karsky asked what date is projected for consummation, and Mr. Ereth stated January 31, 2008.

Mr. Ereth indicated the trade area for Lakeside State Bank does not change much with this application since the banks are only 20 miles apart. Mr. Ereth indicated when reviewing the competitive aspect under the Herfindahl-Hirschman Index (HHI), Lakeside State Bank is 11th in the Minot market according to deposit size, and Peoples Bank and Trust is 13th, and when combined, they move up to the 7th place.

Mr. Ereth indicated there will be no change in the operation or officers of the Peoples Bank and Trust and all facilities of the bank will remain open.

Chairman Karsky asked President Petersen if he would like to discuss what the transaction means to his institution. President Petersen indicated early on they realized that President Lerberg was giving Lakeside State Bank a good opportunity

to expand its trade area and to continue doing business in an area with which they are familiar. President Petersen pointed out that Parshall is 17 miles east of New Town and Makoti is another 15 miles east; adding that one of his grandfathers homesteaded just outside of Makoti; the other grew up in that area and was a businessman in Makoti; and both his father and mother also grew up in Makoti, and came to New Town in the 1960s. President Petersen pointed out they have several relatives and friends in this area, as well as existing customers, and that they are very comfortable entering into this transaction. President Petersen stated Lakeside State Bank was actually chartered by the Lerberg family when New Town was created, so there is a long history of overlap between the banks and the families.

President Petersen indicated both banks are clean banks with good capital, and Lakeside State Bank built its capital up in anticipation of this type of opportunity. President Petersen continued that both banks have good staff and that there would not be any changes in management of the banks, concluding it is a nice fit and they are very comfortable with this opportunity.

Chairman Karsky asked President Lerberg if he would like to comment, and President Lerberg stated he felt President Petersen summed it up very well, adding that after three generations of owning the bank, he would have thought the fourth generation would continue, but his sons do not have interest in the banking business. President Lerberg continued that examiners ask about management succession and he felt given the location and the history, this would be a good fit.

President Lerberg reiterated as Mr. Ereth pointed out, he had a real concern after the sale, but that he is very comfortable with President Petersen and his operation.

President Lerberg added that the customer base in Parshall has not been very excited about the transition, but have been told that business will be as usual, adding that he is happy and excited as this presents the Lerberg family an opportunity to sell to an organization they do not have to be concerned will change things.

Assistant Commissioner Entringer asked President Petersen if it was their intention to use the trade name Peoples Bank and Trust since they had filed a trade name registration. President Petersen indicated it was their intention, although he recognized that the trust powers go away with the merger, and indicated he would

have to obtain legal advice as to whether he could use the “and Trust” in the name. President Petersen added that although they intend to use the Peoples Bank logo and name, it will be clear that this is an office of Lakeside State Bank.

Assistant Commissioner Entringer reiterated to President Petersen that the trust powers are terminated as a result of the merger, and President Petersen stated he is aware of that.

Assistant Commissioner Entringer indicated the State Banking Board should approve the trade name prior to registration with the Secretary of State, as it has not been filed to date.

Assistant Commissioner Entringer noted the suggested change made by Mr. Ereth in the Proposed Order to Item D which deals with the dividend of the Peoples Bank and Trust. Assistant Commissioner Entringer suggested Item D be amended to read “month end adjusted total assets as calculated in the Stock Purchase Agreement”.

It was moved by Member Monson and seconded by Member Henke to approve the application by Lakeside State Bank, New Town, to merge Peoples Bank and Trust, Parshall, with and into Lakeside State Bank, New Town, and to authorize Chairman Karsky to sign the amended Order on behalf of the State Banking Board. The motion was unanimously carried.

DIVIDEND REQUESTS – PEOPLES BANK AND TRUST, PARSHALL, AND LAKESIDE STATE BANK, NEW TOWN

Chairman Karsky stated he did not feel we need to review the Memorandum as this was discussed while reviewing the merger application. Chairman Karsky indicated we need to determine how to word the motion, stating we would need to cap a range for each bank’s dividend request.

Assistant Commissioner Entringer indicated he and Mr. Ereth had discussed capping the dividend request at \$3.4 million for Peoples Bank and Trust, Parshall, although that could possibly require a transfer from surplus to undivided profits; and to cap the request for Lakeside State Bank, New Town, at \$3.2 million.

Assistant Commissioner Entringer indicated it is the Department's recommendation to approve the dividends of \$3.4 million for Peoples Bank and Trust, Parshall, and \$3.2 million for Lakeside State Bank, New Town, because on a consolidated basis post merger the Lakeside State Bank will remain well-capitalized and will have to report this information pursuant to the Order just approved by the State Banking Board.

Chairman Karsky pointed out both banks will need dividend approval for three years going forward. Assistant Commissioner Entringer asked President Petersen if he understood that, and President Petersen stated he did.

It was moved by member Braseth and seconded by Member Moldenhauer to authorize a dividend for Peoples Bank and Trust, Parshall, not to exceed \$3.4 million and to authorize a transfer from surplus to undivided profits if necessary; and to authorize a dividend not to exceed \$3.2 million for Lakeside State Bank, New Town. The motion was unanimously carried.

DIVIDEND REQUESTS

There was discussion about changing the law regarding dividend approvals for excess dividends, and President Petersen indicated he felt there was a way to carve out some language that would allow the bank to declare a dividend without requesting approval from either the Commissioner or State Banking Board, especially considering that Subchapter S banks need to declare dividends on a quarterly basis just to pay income taxes.

Chairman Karsky indicated a complete review of the banking laws is underway and this is one item that will be looked at.

LAKESIDE STATE BANK, NEW TOWN – USE OF TRADE NAME

The State Banking Board discussed the ability of Lakeside State Bank, New Town, to use a trade name of Peoples Bank and Trust.

Member Quale questioned whether the words “and Trust” can be used if they no longer have trust powers.

Assistant Attorney General Webb indicated if Lakeside State Bank, New Town, does not have trust powers, it could not use the words “and Trust” in a trade name.

Chairman Karsky indicated the Board could approve a trade name of Peoples Bank, and Assistant Commissioner Entringer asked President Petersen as to how his trade name registration had been filed. President Petersen stated it had been filed as Peoples Bank and Trust. Assistant Commissioner Entringer told President Petersen he would have to submit a new trade name registration.

Chairman Karsky indicated the trade name request would be tabled until Assistant Attorney General Webb has had a chance to review this issue.

Chairman Karsky indicated another avenue would be to apply for limited trust powers in order to use the words “and Trust”.

President Petersen thanked the State Banking Board for its support in this application.

The Board went into closed session at 9:57 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary